

Thrift Bulletin

Handbook: Thrift Activities
Subjects: Qualified Thrift Investments

Section: 270
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Qualified Thrift Investments

Summary: This Bulletin is designed to further illuminate how institutions may count housing-related consumer or credit card loans as qualified thrift investments under the Qualified Thrift Lender Rule, 12 C.F.R. 583.27 (1988).

For Further Information Contact:
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The QTL test mandated by the Competitive Equality Banking Act of 1987, 12 U.S.C. § 1730a(o) (Supp. V 1987) requires an insured institution to maintain 60 percent of its tangible assets in certain investments deemed to be housing or housing related investments. The implementing regulation for the Qualified Thrift Lender test promulgated by the Board, sets forth a list of 14 items that qualify as housing related investments. 12 C.F.R. 583.27(a), (c) (1988). Although neither the statute nor the regulation specifically addresses the issue of, or includes a category for permitting consumer loans to be counted as QTIs, the preamble to the final rule provides grounds for including consumer loans under certain limited circumstances.

In the preamble, the Board indicates that institutions may use consumer loans under certain limited and specific circumstances. The preamble states that an institution may count consumer loans as QTIs for any reporting quarter that it does not have 60 percent of its assets in qualified thrift investments if it can show with adequate documentation that consumer loans are in fact housing related pursuant to guide-

lines set forth in a Supervisory Memorandum issued by ORA. Pursuant to the directive in the preamble to the QTL regulation, ORA promulgated Supervisory Memorandum No. T-87 ("T-87") to provide specific guidance on what constitutes adequate documentation of the housing-related purpose of consumer loans. Thus, there is a regulatory basis for permitting institutions to include some portion of their consumer loan portfolio.

After considering several approaches to implement this authority, the Office of Regulatory Activities has decided that the concept of a "QTL reserve" would be appropriate to the scope of authority expressed in the preamble and at the same time would limit the use of consumer loans to situations of true need. The concept of the QTL reserve would be to permit an institution that fails the QTL test for any reporting quarter (counting only its QTIs under the QTL rule, but not consumer loans) to draw upon a reserve of approved "housing-related" consumer loans to meet the shortfall under the 60% requirement.

In order to implement this QTL reserve concept, an institution would have to develop a method of documentation pursuant to the guidelines set forth in T-87. Therefore, any institution wishing to establish a QTL reserve should submit its proposed statistical methodology for review and approval by

ORA. Upon such approval, an institution may count its consumer loans as QTIs during any quarter its actual thrift investment percentage does not equal 60 percent.

It appears that whether the House version or the Senate version of the QTL test is finally adapted in FIRREA, both would continue the current QTL test for some period of time—at least one year and possibly 2 years. Therefore, provided the Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA," H.R. 1278, S. 774 101 Cong. 1st Sess. (1989)), as finally enacted does not substantially alter this scenario, the Office of Regulatory Activities, Affiliates Section, or its successor, is willing to entertain plans submitted to it for approval under this authority.

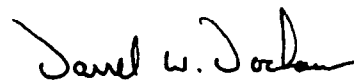
As an alternative (but not mutually exclusive) method of determining an acceptable level of consumer loans as QTI, it has been argued that the Board should survey the Federal Home Loan Bank System members to determine a minimum level of housing-related consumer loans, and allow a minimum percentage of consumer loans to be counted as QTI. Without such a floor, smaller institutions and institutions with small credit card operations are effectively locked out from using consumer loans as QTI because of the high cost of conducting individual surveys to gather evidence necessary to support a proposed consumer loan-QTI percentage. The

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Board's survey would provide the evidence to support the floor percentage to be used; without this evidence such a floor could be seen as arbitrary, and certainly would not meet the Board's "adequate documentation" standard. As a result, the staff will propose that the Board or its successor conduct a national

survey to determine a system-wide minimum level for housing-related consumer loans, and based on such a survey, establish a minimum floor, provided that FIRREA maintains the Board's (or its successor's) authority to adopt a QTL reserve system.



— Darrel W. Dochow, Executive Director